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MISC. NO. ~~2670~~

IN THE UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

UNITED STATES AND THE NATIONAL AERONAUTICS AND SPACE ADMINISTRATION,

Appellants,

vs.

PHYSICS TECHNOLOGY LABORATORIES, INC., et al.,

Appellees.

BRIEF FOR APPELLANTS

APPEAL FROM
THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF CALIFORNIA
SOUTHERN DIVISION

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JURISDICTIONAL STATEMENT

This is an interlocutory appeal from an order filed November 2, 1965 [R. 15-17] 1/ by the United States District Court for the Southern District of California, Southern Division, denying the Government's Motion to Dismiss filed August 20, 1965 [R. 11-14]. This Motion to Dismiss was made pursuant to Rule 12(b)(1) of the Federal Rules of Civil Procedure and was based upon the lack of jurisdiction of the District Court over the subject matter of this action. Appellees had filed the Complaint and invoked the

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1/ "R" as used herein, refers to Clerk's Transcript of Record.

jurisdiction of the District Court under the Federal Tort Claims Act, 28 U. S. C. 1346(b), 1402, and 2671-2678 and the criminal provisions of 18 U. S. C. 1905. By an order entered January 28, 1966, the District Court amended its order denying the Government's Motion to Dismiss to certify that "this order involves controlling questions of law as to which there are substantial grounds for difference of opinion and an immediate appeal from this order may materially advance the ultimate termination of this litigation" [R. 44]. The Government, on February 2, 1966, filed in this Court a timely Application for Leave to Take Interlocutory Appeal under 28 U. S. C. 1292(b), which Application was granted February 17, 1966. The Government's Notice of Appeal was filed February 25, 1966 [R. 48]. This Court's jurisdiction accordingly rests upon 28 U. S. C. 1292(b).

STATEMENT OF THE CASE

By this action appellees seek a judgment in the amount of $5,000,000 for damages allegedly sustained as a result of an alleged disclosure by officers and employees of the National Aeronautics and Space Administration (NASA) to persons outside the Government of a so-called "Space Propulsion Concept", which concept plaintiffs claim was their "trade secret and proprietary right". Appellees allege in paragraph 6 of the Complaint that they submitted this concept to NASA on or about October 25, 1961 and that the officers and employees of NASA "received and accepted

said concept on a secret and confidential basis and agreed to retain the same on a secret and confidential basis" [R. 6]. Appellees contend that on or about June 27, 1963 or within a short time thereafter, notwithstanding this alleged agreement, NASA's officers and employees, while acting within the scope of their employment, "negligently and/or wrongfully" disclosed appellees' trade secret and proprietary right to persons outside the Government [R. 7].

The jurisdiction of the District Court is invoked by appellees under the provisions of the Federal Tort Claims Act, 28 U.S.C. 1346(b), 1402 and 2671-2678, and under the criminal provisions of 18 U.S.C. 1905 [R. 2].

The Government moved to dismiss the Complaint on the ground that if the allegations set forth in plaintiffs' Complaint give rise to a cause of action against the United States, this action may be maintained only under the Tucker Act, 28 U.S.C. 1491, since the Complaint, in essence, alleges the breach by NASA of an express or implied-in-fact agreement or contract between plaintiffs and NASA that the latter would not disclose plaintiffs' "trade secret" to persons outside the Government. Because the amount demanded exceeds $10,000, an action under the Tucker Act may only be maintained in the Court of Claims. The same is true to the extent the action is founded on Federal statute or regulation.

The District Court denied the Government's Motion to Dismiss by an order filed November 2, 1965 [R. 15-17] and held that "if the facts alleged in plaintiffs' [Appellees'] complaint and memorandum are such that Ohio law -- where the transaction

occurred -- would allow recovery in tort, this court does have jurisdiction" [R. 17].

On November 12, 1965 the Government filed a Motion to Amend the order denying the motion to dismiss to permit an interlocutory appeal under the provisions of 28 U. S. C. 1292(b). This motion to amend was granted by an order entered January 28, 1966 [R. 44], permitting this appeal.

While the Motion to Amend was pending, appellees filed an Amended Complaint on November 30, 1965 joining as defendants General Mills, Inc., Litton Industries, Inc. and Litton Systems, Inc. [R. 25-38].

The allegations in the Amended Complaint with respect to the Government are identical to those set forth in the original Complaint, with one exception. In the original Complaint, appellees allege that the officers and employees of NASA "received and accepted said concept on a secret and confidential basis and agreed to retain the same on a secret and confidential basis" [R. 6]. In the Amended Complaint it is contended instead that the officers and employees of NASA "received and accepted said concept to consider, study, keep, hold and retain on a secret and confidential basis" [R. 29]. It is the Government's position that this change in language in no way alters the substance of appellees' cause of action, since in cases where a party claims that a trade secret disclosed "in confidence" was later disclosed to others in breach of the confidence, "the basis of relief is actual or threatened breach of the obligation of an implied contract . . .". Annot.,

170 A. L. R. 449, 476 (1947).

On January 12, 1966, appellees filed a Notice of Dismissal of Count II of the Amended Complaint [R. 42, 43], and on March 4, 1966 appellees filed a Notice of Dismissal of the cause of action as to General Mills, Litton Industries and Litton Systems [R. 46, 47]. This left the Government as the only defendant under the Amended Complaint.

STATUTORY PROVISIONS

1. The Tucker Act, as it appears at 28 U. S. C. 1491, provides in pertinent part:

> "The Court of Claims shall have jurisdiction to render judgment upon any claim against the United States founded either upon the Constitution, or any Act of Congress, or any regulation of an executive department, or upon any express or implied contract with the United States, or for liquidated or unliquidated damages in cases not sounding in tort."

2. 28 U. S. C. 1346(a)(2) provides:

> "The district courts shall have original jurisdiction, concurrent with the Court of Claims, of: . . .
>
> (2) Any other civil action or claim against the United States, not exceeding $10, 000 in amount, founded either upon the Constitution, or any act

of Congress, or any regulation of an executive department, or upon any express or implied contract with the United States, or for liquidated or unliquidated damages in cases not sounding in Tort."

3. The Federal Tort Claims Act, as it appears at 28 U.S.C. 1346(b), provides in pertinent part:

"Subject to the provisions of chapter 171 of this title, the district courts . . . shall have exclusive jurisdiction of civil actions on claims against the United States, for money damages, accruing on and after January 1, 1945, for injury or loss of property, or personal injury or death caused by the negligent or wrongful act or omission of any employee of the Government while acting within the scope of his office or employment, under circumstances where the United States, if a private person, would be liable to the claimant in accordance with the law of the place where the act or omission occurred."

4. 18 U.S.C. 1905 provides in pertinent part:

"Whoever, being an officer or employee of the United States or of any department or agency thereof, publishes, divulges, discloses, or makes known in any manner or to any extent not authorized by law any

information coming to him in the course of his employment or official duties . . ., which information concerns or relates to the trade secrets, processes, operations, style of work, or apparatus . . . shall be fined not more than $1,000, or imprisoned not more than one year, or both; and shall be removed from office or employment."

SPECIFICATION OF ERRORS RELIED ON

1. The District Court erred in holding that it had jurisdiction over the subject matter of this action under the Federal Tort Claims Act.

2. The District Court erred in looking to the law of the State of Ohio and in holding that if the facts alleged are such that Ohio law would allow recovery in tort, the District Court has jurisdiction under the Federal Tort Claims Act.

3. The District Court erred in refusing to dismiss appellees' Complaint, or alternatively, to transfer the cause to the United States Court of Claims under 28 U.S.C. 1406(c).

QUESTIONS PRESENTED

1. In an action to recover damages in excess of $10,000 resulting from a disclosure by Government employees to persons outside the Government of privately owned "trade secrets"

in violation of an asserted confidential relationship or agreement not to do so, or of a Federal statute or regulation, may jurisdiction be based upon the Federal Tort Claims Act, or must jurisdiction be based upon the Tucker Act for breach of an implied contract or agreement or violation of Federal law or regulation in an action which cannot be maintained in the district court?

2. Implicit in the first question is whether state law or federal common law is to be applied in determining (i) whether there was an implied agreement or promise by a Government agency, its officers or employees not to disclose the "trade secret", (ii) whether there was a breach of such an agreement or promise, and (iii) what would be an appropriate remedy.

SUMMARY OF ARGUMENT

It is the Government's position that if an action may be maintained against it arising out of the facts alleged in appellees' Amended Complaint [R. 25-38], such action may not be based upon the Federal Tort Claims Act, but may be maintained only under the Tucker Act for the breach of an implied contract or agreement between appellees and NASA that NASA would not disclose appellees' alleged "trade secret" to persons outside the Government.

Under the common law, the breach of a confidential relationship apparently would give rise to a cause of action either for a

breach of contract or in tort. 2/ The District Court in its Memorandum of Opinion on Defendants' Motion to Dismiss notes, for example, that:

> Absent the issue of jurisdiction which here exists, there has been little reason to debate the issue as to whether an action for the revelation of a trade secret by a prospective purchaser sounds in contract or tort. However, the trend seems to be that relief can be obtained through either avenue [R. 16].

2/ Section 757 of the Restatement of Torts (1939 edition) provides in relevant portions that:

> "One who discloses or uses another's trade secret, without privilege to do so, is liable to the other if (a) he discovered the secret by improper means, or (b) his disclosure or use constitutes a breach of confidence reposed in him by the other in disclosing the secret to him. . . ."

In commenting on clause (b), the Restatement notes that:

> "A breach of confidence under the rule stated in this clause may also be a breach of contract which subjects the actor to liability under the rules stated in the Restatement of Contracts. But whether or not there is a breach of contract, the rule stated in this Section subjects the actor to liability if his disclosure or use of another's trade secret is a breach of the confidence reposed in him by the other in disclosing the secret to him. The chief example of a confidential relationship under this rule is the relationship of principal and agent. . . . But this confidence may exist also in other situations. For example, A has a trade secret which he wishes to sell with or without his business. B is a prospective purchaser. In the course of negotiations, A discloses the secret to B solely for the purpose of enabling him to appraise its value. . . . [In such a case] B is under a duty not to disclose the secret or use it adversely to A.

It is the Government's contention, however, that where the suit is against the United States, relief cannot be obtained through either avenue; to permit such a choice would destroy the distinction between contract actions and tort actions, which distinction is carefully preserved in the federal statues. And this distinction is not an academic one, since under the Federal Tort Claims Act, state law governs in determining and measuring liability, whereas under the Tucker Act uniform federal common law is controlling. Woodbury v. United States, 313 F. 2d 291 (9th Cir. 1963); Padbloc Co. v. United States, 161 Ct. Cl. 369, 137 U. S. P. Q. 224 (Ct. Cl. 1963). Moreover, the district Courts have exclusive jurisdiction in actions under the Federal Tort Claims Act, whereas the Court of Claims has exclusive jurisdiction in cases involving more than $10,000 brought under the Tucker Act. Therefore, as developed more thoroughly hereinafter, if the District Court's ruling is permitted to stand as precedent, not only will the federal departments and agencies be subject to the differing laws of the fifty states in handling trade secrets, but also the trade secret owner will be permitted to choose both his forum, Court of Claims or the district courts, and the law to be applied, federal law or state law. This would clearly be an anomalous result.

The conclusion that appellees' cause of action, in essence, is based upon the alleged breach by NASA of an implied contract follows from the nature of the obligations which result from the disclosure of a trade secret "in confidence". Perhaps the clearest

definition of the precise nature of these obligations is provided by an annotation in American Law Reports beginning at 170 A. L. R. 449 (1947). There it is stated:

> "The most common ground for relief is that the disclosure to defendant . . . was made 'in confidence', by which is meant not simply that plaintiff placed confidence in the disclosee but that by force of the circumstances, if not of the language used by the parties, the disclosee impliedly obligated himself to respect the confidence. The basis of relief is actual or threatened breach of the obligation of an implied contract. . . . (170 A. L. R. at 475-76) (Footnotes omitted.)"

The Government's position that the District Court lacks jurisdiction over appellees' cause of action is supported:

(1) By the only previous decisions construing the scope of the Federal Tort Claims Act in the context of trade secret law: Fulmer v. United States, 83 F. Supp. 137 (N. D. Ala. 1949) and Atkiebolaget Bofors v. United States, 93 F. Supp. 131 (D. D. C. 1950), aff'd. 194 F. 2d 145 (D. C. Cir. 1951).

(2) By a recent decision of the Court of Claims holding the Government liable under the Tucker Act for disclosing to persons outside the Government

confidential information submitted under what the Court of Claims held to be an implied-in-fact contract to use this information only for inspection purposes: Padbloc v. United States, 161 Ct. Cl. 369, 137 U. S. P. Q. 224 (Ct. Cl. 1963).

(3) By the decision of this Court in the leading case of Woodbury v. United States, 313 F. 2d 291 (9th Cir. 1963).

(4) By discussions of the questions presented in this appeal in the literature: see, for example, Kostos, Unauthorized Use of Technical Data in Government Contracts: Remedies of the Data Owner, 6 Boston College Ind. and Com. L. Rev. 753, 756 (Summer 1965) and Note, 55 Dickinson L. Rev. 301, 313 (1951).

I

THE ONLY PREVIOUS DECISIONS CONSTRUING THE SCOPE OF THE FEDERAL TORT CLAIMS ACT IN TRADE SECRET CASES SUPPORT THE POSITION THAT THE DISTRICT COURT LACKS JURISDICTION.

Soon after enactment of the Federal Tort Claims Act it was decided in Fulmer v. United States, 83 F. Supp. 137 (N. D. Ala. 1949), that an action against the United States could not be sustained under the Federal Tort Claims Act to recover for the

alleged unauthorized disclosure and use of an unpatented invention or a trade secret. In the Fulmer case, the plaintiff alleged that he had,

> " ' . . . entered into an oral agreement with officers, agents, servants or employees of the defendant' pursuant to which plaintiff disclosed to defendant his 'device, plan, means or method for bomb sight indicating chart for aircraft' upon the promise of said representatives of defendant 'that said disclosure would be treated in confidence, that such disclosure would not be revealed to the public or otherwise be appropriated, [and] that defendant would pay to the plaintiff for the use of said device, invention, means or method the reasonable value of same'." (83 F. Supp. at 138).

Plaintiff further alleged that subsequently,

> " ' . . . defendant in a publication prepared by it . . . did publish plaintiff's said invention, plan, means or method' and that since said publication was designed and intended for the instruction of the military forces of the defendant, 'defendant has actually used said invention, device, plan, means or method of plaintiff'." (85 F. Supp. at 138-39).

Several grounds for jurisdiction were argued, including the Federal Tort Claims Act. The Court rejected all of these, and

granted the Government's motion for a summary judgment. In commenting on the Federal Tort Claims Act, the Court noted:

> "While the Federal Tort Claims Act does not, in terms, either include or exclude claims arising out of the alleged use of unpatented inventions, its very silence on the subject effectively excludes such claims." (83 F. Supp. at 151).

Notwithstanding the Fulmer decision, the Aktiebolaget Bofors Company, in Aktiebolaget Bofors v. United States, 93 F. Supp. 131 (D. D.C. 1950), aff'd. 194 F.2d 145 (D.C. Cir. 1951), brought an action against the United States to recover damages for what plaintiff contended was the illegal use by the United States of a secret process owned by plaintiff. Plaintiff alleged that the United States violated an agreement or license under which the U.S. Navy was to receive a disclosure by plaintiff of this process and was to use the process to make and use a so-called Bofors gun only in the United States, and only for the use of the United States. The United States, plaintiff contended, subsequently manufactured large quantities of the Bofors gun and furnished many to friendly powers under the so-called Lend-Lease Act, and other similar statutes, in violation of the agreement, for which plaintiff demanded damages in the amount of $2,000,000. The Government moved to dismiss the complaint on the ground that the District Court was without jurisdiction,

> ". . . in that the claim sought to be asserted

is one for breach of contract, while the jurisdiction of this Court in actions against the United States for breach of contract is limited to claims involving not more than $10,000. The Court of Claims alone has jurisdiction over actions against the United States for breach of contract involving an amount in excess of that sum." (93 F. Supp. at 133).

The plaintiff contended, on the other hand, that the action sounded in tort and that the District Court had jurisdiction under the Federal Tort Claims Act. The District Court granted the Government's motion to dismiss the complaint, relying on the Fulmer case, which it regarded as being "on all fours with the case at bar". In affirming this decision, the Court of Appeals summarized the law of trade secrets in the context of the Federal Tort Claims Act:

> "The owner of an unpatented trade secret has a property right in it as long as he does not disclose it. His right to the exclusive use of it depends upon the continuance of secrecy. Any person who obtains the secret from him by theft, bribery, stealth, breach of a confidential relation or other unlawful means violates his property right and commits a tort. As Judge Holtzoff said in his opinion in this case, 'So long as the secret remains intact, any one who invades it, is guilty of a tortious act.'

"The tort lies in the wrongful acquisition. But one who has lawfully acquired a trade secret may use it in any manner without liability unless he acquired it subject to a contractual limitation or restriction as to its use. In that event a licensee who uses the secret for purposes beyond the scope of the license granted by the owner is liable for breach of contract, but he commits no tort, because the only right of the owner which he thereby invades is one created by the agreement of disclosure. The owner could not maintain a suit against him for damages arising from unlicensed use without pleading and proving the contract. This being true, the gist of the owner's action is the breach of the licensing agreement.

"Here the Navy Department acquired the secret lawfully. Subsequent unauthorized use by the United States was, therefore, not tortious. It follows that the complaint in case No. 10870 did not state a cause of action in tort. Moreover, 28 U.S.C. §2680(h) excepts from those claims upon which the Government may be sued under the Federal Tort Claims Act 'Any claim arising out of . . . interference with contract rights.' " (194 F. 2d at 147, 148).

Applying the principles of the Bofors decision to the present case, appellees do not contend that the officers and employees of NASA acquired the so-called "Space Propulsion Concept" unlawfully.

Instead it is admitted that appellees submitted this concept to these officers and employees voluntarily, in the form of a proposal, and that after this submission "from time to time plaintiffs communicated with NASA concerning said concept and discussed said concept with NASA, its officers and employees" [R. 29]. Appellees, accordingly, base their claim on the allegations (1) that the NASA "officers and employees . . . received and accepted said concept to consider, study, keep, hold and retain on a secret and confidential basis" [R. 29], and (2) that they subsequently breached this agreement. Appellees could not maintain a suit against the Government without proving an agreement or promise, either express or implied, that the concept would be retained on a confidential basis. This being true, the gist of the action is that the NASA officers and employees breached this agreement. 3/

Both the Fulmer case and the Bofors case, therefore, stand for the principle that the Federal Tort Claims Act does not confer jurisdiction upon the district courts in actions against the Government for the alleged unauthorized disclosure of trade secrets. In Bofors there was a written license agreement involved, and following the District of Columbia Court of Appeals decision

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3/ As stated in Corpus Juris Secundum, "a licensee of an unpatented trade secret who uses the secret beyond the scope of the license granted by the owner, although liable for breach of contract, commits no tort, or, as it is otherwise stated, no tort is committed by one who uses information previously embraced in the secret, if the disclosure was obtained by lawful means," 86 C.J.S. Torts §48 (1954). This view, published after the Bofors case, is somewhat different from the 1939 Restatement of Torts view quoted supra at footnote 1.

in Bofors, a successful action against the United States was maintained by the Aktiebolaget Bofors Company in the Court of Claims for breach of this license agreement. Aktiebolaget Bofors v. United States, 153 F. Supp. 397 (Ct. Cl. 1957). In Fulmer, the Court held based upon the evidence that there was no contracts, either express or implied, which would provide a basis for recovery under the Tucker Act.

Except for the present action, the Fulmer case and the Bofors case appear to be the only instances where a plaintiff based an action against the United States for the unauthorized disclosure of a trade secret upon the Federal Tort Claims Act. And the Bofors case is cited in the literature as standing for the principle that such an action may not be based upon this Act. See, for example, Kostos, Unauthorized Use of Technical Data in Government Contracts: Remedies of the Data Owner, 6 Boston College Ind. and Com. L. Rev. 753, 756 (summer 1965) and Note, 55 Dickinson L. Rev. 301, 313 (1951). Kostos draws a distinction between tangible and intangible property and concludes that the Federal Tort Claims Act "does not embrace certain torts which interfere with the intangible rights of the injured party [e.g., his rights in trade secrets], as distinguished from damage to his property or person".

II

THE COURT OF CLAIMS HAS HELD THAT IT HAS JURISDICTION UNDER THE TUCKER ACT IN AN ACTION INVOLVING THE UNAUTHORIZED DISCLOSURE OF PROPRIETARY INFORMATION SUBMITTED TO THE GOVERNMENT BY A PROSPECTIVE CONTRACTOR UNDER AN IMPLIED CONTRACT RESTRICTING DISCLOSURE.

In Padbloc Co. v. United States, 161 Ct. Cl. 369, 137 U.S.P.Q. 224 (Ct. Cl. 1963), the Government was held liable under the Tucker Act for disclosing to persons outside the Government confidential information disclosed to the Government by a prospective contractor under what the Court of Claims held to be an implied-in-fact contract that the Government would use this information only for inspection purposes.

In that case, plaintiff offered to permit the Army Chemical Corps to have access to the plaintiff's secret plans and processes for packaging fire bombs if the Chemical Corps would designate plaintiff's package for fire bombs as the only approved alternate to a Chemical Corps package on future procurements of fire bombs until 104,000 packaged fire bombs had been delivered to or ordered by the Government, at which time the plaintiff would grant the Government a royalty-free license under its patents and "know-how". Almost immediately after this proposal was drawn up in the New York office of the Chemical Corps in the form of a letter dated May 28, 1954 and signed by plaintiff (it was not signed by anyone on behalf of the Government), the Government amended the

existing bid - invitation to designate plaintiff's package as the approved alternate unit. Subsequently, a contracting officer wrote plaintiff on June 7 asking for authority to inspect plaintiff's pending patent application and for all other material promised, in response to which plaintiff promptly supplied the requested authority and information. Not long thereafter, it was determined that plaintiff's package and not the Chemical Corps package best met the Government's requirements; whereupon the Government had plaintiff's drawings copied and given to other fire-bomb contractors together with other information obtained from plaintiff. Plaintiff then sued the Government both for breach of contract and patent infringement. The Court of Claims found the "contract count decisive" (161 Ct. Cl. at 371).

As a preliminary matter, the Court held that whether there was a contract or not "is not to be measured by state law (the parties seem to think that New York law controls) but by the uniform federal 'common law' which governs the contracts of the United States. . . . As always, the federal contract law we apply should take account of the best in modern decisions and discussion." (161 Ct. Cl. at 377) (Citations omitted).

In response to the Government's contention that there was no formal contract between the parties, the Court stated:

> " . . . it is wholly appropriate (and fully in accord with reality) to read the defendant's letter of June 7th, although it did not say so in words, as impliedly promising to abide by that provision when the

information was forwarded. That is certainly what plaintiff reasonably thought and what the defendant had every reason to believe the plaintiff would think. The defendant, for its part, could not reasonably assume that it would receive plaintiff's secret data without any interim obligation to protect their secrecy." (161 Ct. Cl. at 378).

The court then concluded, applying federal common law, that "plaintiff justifiably assumed that its confidence would not be violated and that the defendant would respect the limitations clearly placed on the use of plaintiff's drawings and other material. The contemporary rules of contract law permit that reasonable expectation to be fulfilled." (161 Ct. Cl. at 379). Based upon this construction, the Court held the Government liable under the Tucker Act for the breach of an implied bilateral contract.

Appellees' allegations and the facts of the Padbloc case are quite analogous. In Padbloc the plaintiff submitted proprietary information to the Government in the hope of receiving a procurement contract. Appellees allege that their so-called "Space Propulsion Concept" was submitted to NASA in the form of a proposal looking toward the award of a NASA contract (R. 28). The court in Padbloc held in view of the circumstances of the case that the Government was under an implied obligation to retain plaintiff's data in confidence. Appellees allege that:

"At the time plaintiff Meckel submitted said

concept to NASA, and on many occasions thereafter, plaintiffs have advised NASA, its officers and employees, that said concept was secret and confidential, was a trade secret and the proprietary right of plaintiffs and requested NASA, its officers and employees, not to disclose the same outside of Government. At all times involved herein, NASA, its officers and employees while acting within the scope of their office or employment, received and accepted said concept to consider, study, keep, hold and retain on a secret and confidential basis." (R. 29).

Accordingly, if appellees' allegations can be supported, and if appellees are able to prove a confidential relationship resulting from a binding implied-in-fact contract or agreement between appellees and NASA, then under the Padbloc decision an action could be maintained in the Court of Claims under the Tucker Act. On the other hand, if appellees are unable to prove a confidential relationship founded upon a contract or agreement with NASA which may be implied under the circumstances, then it is the Government's position that their cause of action must fail.

III

THE DECISION OF THIS COURT IN THE LEADING CASE OF WOODBURY v. UNITED STATES SUPPORTS THE GOVERNMENT'S POSITION THAT THE DISTRICT COURT LACKS JURISDICTION OVER APPELLEES' ACTION.

The rationale underlying the Fulmer case, the Bofors Court of Appeals decision, and the Padbloc case was perhaps best articulated by this Court in the leading case of Woodbury v. United States, 313 F. 2d 291 (9th Cir. 1963). In this case, plaintiff contended that the United States Housing and Home Finance Administration (HHFA) had breached a fiduciary duty, and that the breach of such a duty was a tort under the Federal Tort Claims Act, even though the fiduciary duty may have been created by contract. In affirming the district court's dismissal of the action for lack of jurisdiction, this Court defined what it regarded as the essential distinction between actions brought against the United States for breach of contract and those which may properly be maintained in tort:

> "Appellant argues persuasively and at length that breach of fiduciary duty is a tort, even though the duty may be created by contract, and that nowhere in the Federal Tort Claims Act is such a tort expressly excepted from its coverage. (See 28 U. S. C. §2680, where the exceptions are stated). We assume, for the purposes of this decision, but do not decide, that

these arguments are sound as far as they go. A number of cases are cited in support of the proposition that the coverage of the Federal Tort Claims Act is not limited to the 'ordinary common-law type of tort'. We have no quarrel with them, but we are still of the view that appellant does not have a case under the Act.

"Under the federal statutes, jurisdiction of the courts over contract claims against the Government is different from jurisdiction over tort claims. Contract claims are covered by the Tucker Act, adopted in 1887 (ch. 359, 24 Stat. 505) and now appearing, as amended, in 28 U.S.C. §1491, which confers upon the Court of Claims jurisdiction over 'any claim against the United States . . . founded . . . upon any express or implied contract with the United States . . . in cases not sounding in tort'. The district courts have concurrent jurisdiction of such cases under 28 U.S.C. §1346(a)(2), but only when the claim does not exceed $10,000. Jurisdiction over tort claims against the Government is made 'exclusive' to the district courts by 28 U.S.C. §1346(b).

"The law applied under the two statutes also differs. It has long been established that the law to be applied in construing or applying provisions of government contracts is federal, not state law. . . .

It is clear to us that, on principle, federal law must govern the interpretation and application of a contract which is the basis for jurisdiction in an action under the Tucker Act, and it has been so held. . . . The Federal Tort Claims Act expressly provides for liability of the United States for torts 'under circumstances where the United States, if a private person, would be liable to the claimant in accordance with the law of the place where the act or omission occurred'. (28 U.S.C. §1346(b)). Under this Act, therefore, state law, not federal law, controls. Thus to permit the result here sought would give to the plaintiff not only a choice of forum (district court rather than Court of Claims where over $10,000 is sought), but also a choice of law.

"Many breaches of contracts can also be treated as torts. But in cases such as this, where the 'tort' complained of is based entirely upon breach by the Government of a promise made by it in a contract, so that the claim is in substance a breach of contract claim, and only incidentally and conceptually also a tort claim, we do not think that the common law or local state law right to 'waive the breach and sue in tort' brings the case within the Federal Tort Claims Act. The notion of such waiver of breach and suit in tort is a product of the history of English forms of action;

it should not defeat the long established policy that government contracts are to be given a uniform interpretation and application under federal law, rather than being given different interpretations and applications depending upon the vagaries of the laws of fifty different states.

* * *

"Allowing the plaintiff to waive the breach and sue in tort would destroy the distinction between contract and tort preserved in the federal statutes.

* * *

"We do not mean that no action will ever lie against the United States under the Tort Claims Act if a suit could be maintained for a breach of contract based upon the same facts. We only hold that where, as in this case, the action is essentially for breach of a contractual undertaking, and the liability, if any, depends wholly upon the government's alleged promise, the action must be under the Tucker Act, and cannot be under the Federal Tort Claims Act. (313 F. 2d at 294-96) (Footnotes and case citations omitted).

In the present case, that the appellees' recovery is dependent upon the proof of a promise and a breach of that promise was recognized by the District Court. Summarizing the case in the first paragraph of the opinion denying the Government's motion,

the District Court stated:

> "The complaint alleges a negligent and/or wrongful disclosure by Government officials of a secret process which had been disclosed to the officials by plaintiffs for the Government's consideration under the promise by the officials not to disclose." (R. 15) (Emphasis added).

The District Court, in part at least, relied for its decision upon Aleutco Corp. v. United States, 244 F. 2d 674 (3rd Cir. 1957). This case was discussed by this Court in Woodbury in these terms:

> "To the extent that the reasoning in Aleutco Corp. v. United States, 3 Cir., 1957, 244 F. 2d 674, 678-679, can be said to be contrary to the views here expressed, we decline to follow it. But we do not think that that case is really contrary to our views. It was an action for conversion of property -- 'a classic case in tort' -- as the court stated. We think that in Aleutco the action was essentially one sounding in tort, while here the action is one essentially sounding in contract. There, the breach of contract, if any, was a mere background for the tort -- refusal of the government to permit the plaintiff to take possession of property that it owned. The contract was not the essential basis of the claim -- rather, it came into the case as a claimed defense on behalf of the government, which asserted that plaintiff, by breach of

contractual arrangements with the government, had forfeited its right to the property. Not so here. Fiduciary duty or not, there can be no liability in this case unless Woodbury can prove (1) an express or implied promise by the Government, through HHFA, to adopt and carry out a permanent long range plan to finance the project and (2) a wrongful breach of that promise." (313 F. 2d at 296-97).

So too in the instant case, there can be no liability unless appellees can prove (1) an express or implied promise by NASA not to disclose appellees' so-called "Space Propulsion Concept" outside the Government and (2) a wrongful breach of that promise.

Notwithstanding the authority cited by the Government, the District Court held that " . . . if the facts alleged in plaintiffs' complaint and memorandum are such that Ohio law -- where the transaction occurred -- would allow recovery in tort, this court does have jurisdiction" (R. 17). But this misses the point of the Woodbury case, and the other cases cited above. In Woodbury, this Court did not look to the law of the state where the alleged breach of the fiduciary relationship took place to see if this breach was considered to be a tort; quite the opposite, the Court assumed this to be so, but held as a matter of law that where a claim against the United States is founded in essence upon the breach of a promise by the Government, the matter was not within the scope of the Federal Tort Claims Act. Similarly, in United States v. Smith, 324 F. 2d 622 (5th Cir. 1963), and in Blanchard v. St. Paul

Fire & Marine Insurance Co., 341 F. 2d 351 (5th Cir. 1965), cert. denied, 382 U. S. 829 (1965), cited by the District Court, the Fifth Circuit Court of Appeals did not look to the state law to determine whether the action complained of was regarded as a tort or a breach of contract, in turn, to determine whether there was jurisdiction under the Federal Tort Claims Act, since state law becomes relevant only if it is first determined that jurisdiction exists under the Federal Tort Claims Act.

United States v. Smith, supra, is quite relevant. In this case, six subcontractors who performed work for a government prime contractor sued the United States under the Federal Tort Claims Act on the ground that a government contracting officer negligently failed to require a payment bond from the prime contractor as required by statute. The Court of Appeals reversed a district court decision rendering judgment against the United States on the ground that the action could not be sustained under the Federal Tort Claims Act. In commenting on the intent of Congress in enacting the Federal Tort Claims Act, the Court quoted at length from the Woodbury decision and concluded that the common law or local state law right to "waive the breach and sue in tort" did not bring the case within the Federal Tort Claims Act.

The Smith case is particularly pertinent in view of the similarities between the allegation in that case and appellees' allegations. In Smith the plaintiffs based their action on the allegation that a government contracting officer negligently failed to include the payment bond in the prime contract in violation of a

federal statute. In the instant case, appellees contend that employees of NASA negligently disclosed appellees' so-called "Space Propulsion Concept" in violation of the provisions of 18 U.S.C. 1905, quoted supra and in violation of NASA regulations. In this connection it should be emphasized that under 28 U.S.C. 1346(a)(2) and 28 U.S.C. 1491 claims in excess of $10,000 founded on Federal statute or regulation as well as those founded on express or implied contract with the United States are not included within the jurisdictional grant made to the district courts but are placed within the exclusive jurisdiction of the Court of Claims.

The importance of applying a federal standard under the Tucker Act -- (1) in interpreting Federal statutes and regulations and in construing any alleged agreement or confidential relationship between appellees and NASA in this action or in determining whether there was such an agreement, (2) in establishing whether there was a breach of any agreement, and (3) in fashioning an appropriate remedy -- is underscored by the fact that NASA in its procurement regulations, issued pursuant to the Armed Services Procurement Act, 10 U.S.C. 2301 et seq., provides a procedure for the submission to NASA of proposals which may contain proprietary information. NASA Procurement Regulations §3.109, 41 C.F.R. 18-3.109. NASA has over 30,000 employees located at major research installations throughout the country. Over 12,000 of these employees are scientists and engineers who may be called upon from time to time to review and evaluate a potential contractor's trade secret or proprietary information submitted in

hope of being awarded a NASA contract. NASA officials estimate that during fiscal year 1965 alone over 3,000 unsolicited proposals were submitted by private concerns to NASA for evaluation. If the duties and liabilities of NASA and its employees in handling these proposals were held to be governed by state law of unfair competition in trade secret cases, formulation of NASA-wide procedures and policies designed to accommodate all of the different standards applied by the state would be difficult if not impossible. And, of course, if the District Court's ruling were allowed to stand in the case, the precedent would apply to all departments and agencies of the Government, and the attendant problems from an operational point of view would be multiplied many times over.

CONCLUSION

For the reasons stated, it is respectfully requested that the District Court's order denying the Government's Motion to Dismiss be reversed and that the case be remanded with instructions to dismiss appellees' Amended Complaint. Alternatively, it is requested that the case be remanded to the District Court with instructions to transfer the case to the Court of Claims under 28 U.S.C. 1406(c).

Respectfully submitted,

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CERTIFICATE

I certify that in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

/s/ Clarke A. Knicely

CLARKE A. KNICELY